

**MASON CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004**

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Board of Education and School District Officials

At June 30, 2004

Name	Title	Term Expires
(Before September, 2003 Election)		
Board of Education		
Dr. Samuel Hunt	President	September, 2004
Richard Hudson	Vice-President	September, 2003
Mark Young	Member	September, 2005
Janet Isaacson	Member	September, 2004
James Spicer	Member	September, 2005
Timothy Becker	Member	September, 2003
Gary Hoffman	Member	September, 2003
(After September, 2003 Election)		
Board of Education		
Dr. Samuel Hunt	President	September, 2004
Richard Hudson	Vice-President	September, 2006
Mark Young	Member	September, 2005
Janet Isaacson	Member	September, 2004
James Spicer	Member	September, 2005
Timothy Becker	Member	September, 2006
Gary Hoffman	Member	September, 2006
Officials		
Keith Sersland	Superintendent	July, 2004
Ramona Jeffrey	District Secretary/Treasurer	July, 2004

Independent Auditor's Report

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District, Mason City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2004 on our consideration of the Mason City Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Page 4 through 13 and 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mason City Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 37 through 42, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 21, 2004

MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$30,705,887 in fiscal 2003 to \$30,732,791 in fiscal 2004, while General Fund expenditures increased from \$30,259,780 in fiscal 2003 to \$31,287,476 in fiscal 2004. This resulted in a decrease of \$554,685 in General Fund balance from \$4,770,263 in fiscal 2003 to \$4,215,578 in fiscal 2004 or an 11.6% decrease in fund balance.
- The small increase in General Fund revenues of only \$26,904 was attributable to an increase in Federal grant revenue which was mostly offset by a decrease in state foundation aid received. The State mandated a 2.5% across-the-board reduction in state aid which amounted to a decrease of \$443,387 to Mason City Community Schools. Later the State restored .025% of the across-the-board reduction or \$44,910 to Mason City Community Schools. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, purchase of equipment for science labs, purchase of supplies and equipment for adding two special education classrooms, and starting the GAP program at Francis Lauer Youth Services.
- A decline in interest rates resulted in interest earnings in the General Fund alone to decrease from \$93,681 in 2003 to \$61,634 in 2004.
- On March 4, 2003 the taxpayers of Cerro Gordo County voted in favor of the one-cent local option sales tax to be used for school infrastructure. In order for the School District's Debt Service to be paid for by the one-cent local option sales tax revenue, the Capital Projects Fund transferred \$1,700,000; \$850,000 to the Debt Service Fund to cover the upcoming principal and interest payments on the Harding/Hoover Construction Project and \$850,000 to the Physical Plant and Equipment Fund for repayment of the loan to the Debt Service Fund until the monies were collected from the one-cent local option sales tax.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the School District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

FIGURE A-1

MASON CITY COMMUNITY SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

Sample GASB 34 Community School District Annual Financial Report

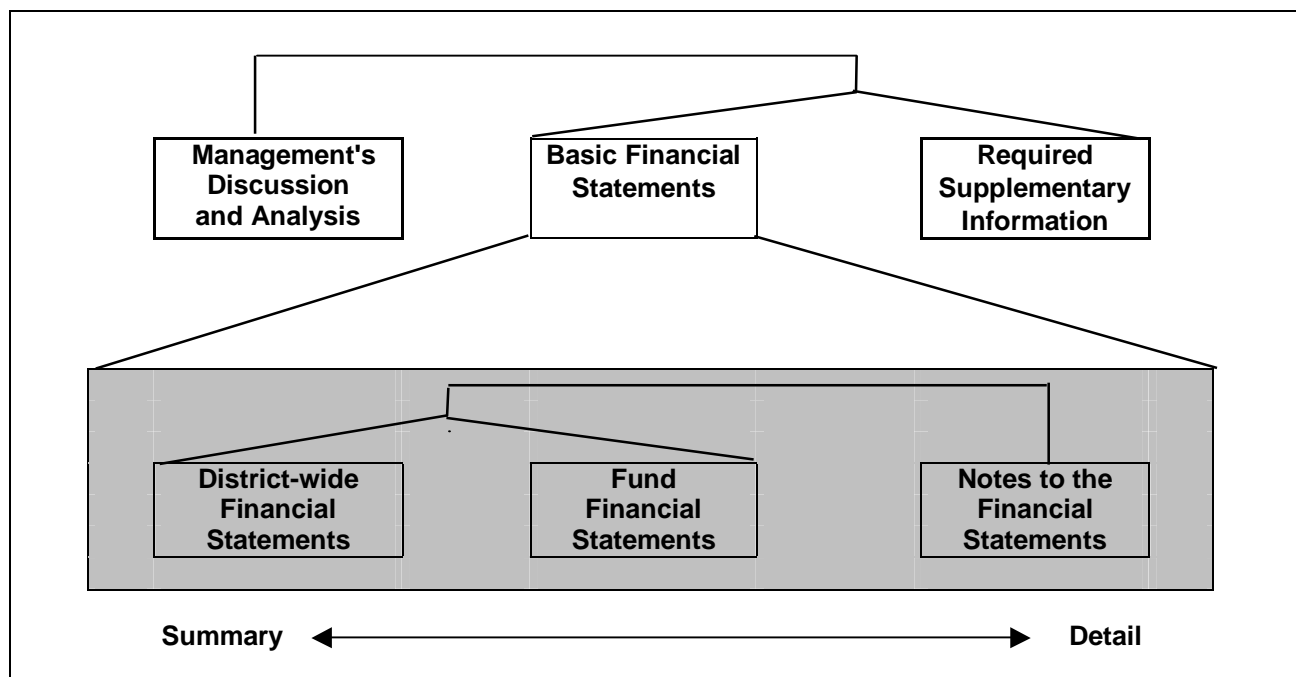


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

FIGURE A-2				
MAJOR FEATURES OF THE DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Balance sheet * Statement of revenues, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the School District's *net assets* and how they have changed. Net assets equal the difference between the District's assets and liabilities are one way to measure the District's financial health or position.

- Over time, increase or decreases in the School District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the School District's activities are divided into two categories:

- *Governmental activities:* Most of the School District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The School District charges fees to help cover the costs of certain services it provides. The School District's school nutrition program is included here.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds – not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants.

The School District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The School District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The School District's governmental funds include the General Fund, Special Revenue Funds, PPEL Fund and Capital Projects Fund.

Proprietary funds: Services for which the School District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

- The School District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The School District currently has one enterprise fund, the School Nutrition Fund.

Fiduciary Funds: The School District is the trustee, or fiduciary, for assets that belong to others. These funds include one Agency Fund.

- Agency Fund – These are funds for which the School District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The School District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net Assets – Figure A-3 below provides a summary of the School District's net assets for the year ended June 30, 2004.

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET ASSETS

	<div style="border: 1px solid black; padding: 5px; text-align: center;"> Governmental Activities June 30, </div>		<div style="border: 1px solid black; padding: 5px; text-align: center;"> Business-type Activities June 30, </div>		<div style="border: 1px solid black; padding: 5px; text-align: center;"> Total School District June 30, </div>	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 31,015,170	\$ 28,057,269	\$ 698,449	\$ 744,468	\$ 31,713,619	\$ 28,801,737
Capital assets	18,467,406	17,892,330	225,432	145,716	18,692,838	18,038,046
TOTAL ASSETS	<u>\$ 49,482,576</u>	<u>\$ 45,949,599</u>	<u>\$ 923,881</u>	<u>\$ 890,184</u>	<u>\$ 50,406,457</u>	<u>\$ 46,839,783</u>
Long-term obligations	\$ 6,350,000	\$ 6,900,000	\$ 0	\$ 0	\$ 6,350,000	\$ 6,900,000
Other liabilities	19,126,227	18,617,334	103,296	96,394	19,229,523	18,713,728
TOTAL LIABILITIES	<u>\$ 25,476,227</u>	<u>\$ 25,517,334</u>	<u>\$ 103,296</u>	<u>\$ 96,394</u>	<u>\$ 25,579,523</u>	<u>\$ 25,613,728</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 12,117,406	\$ 10,992,330	\$ 225,432	\$ 145,716	\$ 12,342,838	\$ 11,138,046
Restricted	6,129,501	4,937,498	0	0	6,129,501	4,937,498
Unrestricted	5,759,442	4,502,437	595,153	648,074	6,354,595	5,150,511
TOTAL NET ASSETS	<u>\$ 24,006,349</u>	<u>\$ 20,432,265</u>	<u>\$ 820,585</u>	<u>\$ 793,790</u>	<u>\$ 24,826,934</u>	<u>\$ 21,226,055</u>

Changes in net assets – Figure 4-A shows the changes in net assets for the year ended June 30, 2004.

FIGURE A-4

**MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET ASSETS**

	Governmental Activities	Business-type Activities	Total School District
REVENUES:			
Program revenues:			
Charges for service and sales	\$ 1,739,578	\$ 909,501	\$ 2,649,079
Operating grants and contributions	3,508,810	666,683	4,175,493
Capital gains and contributions	256,793	0	256,793
General revenues:			
Property tax	15,233,474	0	15,233,474
Unrestricted state grants	16,466,609	0	16,466,609
Unrestricted investment earnings	98,118	3,293	101,411
Other	49,259	0	49,259
TOTAL REVENUES	<u>\$37,352,641</u>	<u>\$1,579,477</u>	<u>\$38,932,118</u>
PROGRAM EXPENSES:			
Governmental activities:			
Instruction	\$24,108,279	\$ 0	\$24,108,279
Support Services	7,901,893	0	7,901,893
Non-instructional programs	35,141	1,552,682	1,587,823
Other expenses	2,157,735	0	2,157,735
TOTAL EXPENSES	<u>\$34,203,048</u>	<u>\$1,552,682</u>	<u>\$35,755,730</u>
CHANGE IN NET ASSETS	<u>\$ 3,149,593</u>	<u>\$ 26,795</u>	<u>\$ 3,176,388</u>

Property tax and unrestricted state grants account for 81.4% of the total revenue. The School District's expenses primarily relate to instruction and support services which account for 89.5% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$37,352,641 and expenses were \$34,203,048, which amounted to an increase in net assets of \$3,149,593. The following table presents the total and net cost of the School District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

FIGURE A-5

**MASON CITY COMMUNITY SCHOOL DISTRICT
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES**

	Total Cost of Services	Net Cost of Services
Instruction	\$24,108,279	\$20,435,632
Support Services	7,901,893	7,683,667
Non-instructional programs	35,141	35,141
Other expenses	<u>2,157,735</u>	<u>543,427</u>
TOTALS	<u>\$34,203,048</u>	<u>\$28,697,867</u>

- The cost financed by users of the School District's programs was \$1,739,578.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,508,810.
- The net cost of governmental activities was financed with \$15,233,474 in property tax, \$16,466,609 in state foundation aid and \$98,118 in interest income.

Business Type Activities

Revenues of the School District's business-type activities were \$1,579,477 and expenses were \$1,552,682. The School District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the School District replaced a large outdoor walk-in cooler at John Adams Cafeteria, replaced a large mixer and skillet at John Adams Cafeteria, plus hot cabinets at each of the cafeterias, and replaced computers and printers used to keep track of the Accu-Scan program. The price of meals was last increased in school year 2000-2001.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Individual Fund Analysis

As previously noted, the Mason City Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the School District as a whole is reflected in its governmental funds as well. As the School District completed the year, its governmental funds reported combined fund balances of \$10,441,475, well above last year's ending fund balances of \$8,134,108. The reason for the increase in combined fund balances in 2004 is due mainly to the addition of the one-cent local option sales tax which is included in the Capital Projects Fund. The PPEL Fund's balance continues to increase due to the Board of Education's decision to save \$300,000 a year for long-term investments.

Governmental Fund Highlights

The School District's decrease in the General Fund financial position was due to the State's across-the-board cut in state aid. The State's Across-the-Board budget cuts the last couple of years have resulted in the expenditures being cut to the bare minimum.

The General Fund expenditures for negotiated salaries increased by \$708,757 from 2003 to 2004 whereas the benefits increased by \$287,678 from 2003 to 2004. Salaries and benefits make up 81% of the General Fund budget.

On March 4, 2003 the taxpayers of Cerro Gordo County passed the one-cent local option sales tax to be used for school infrastructure. The first priority of the Mason City Community School's Board of Education was to reduce the bonded indebtedness. In order to do this, \$850,000 was transferred from the Capital Projects Fund to the Physical Plant and Equipment Fund, to repay the loan to cover the interest and principal payment on the Harding/Hoover Construction Project from last school year and \$850,000 was transferred to the Debt Service Fund to pay for the upcoming interest and principal for this school year.

The Mason City Community School District received a \$522,000 matching Iowa Construction Grant to remodel four science labs at the high school in the summer of 2003 and to remodel four science labs at the high school in the summer of 2004. The match before July 1, 2003 will come from the Physical Plant and Equipment Fund and after July 1, 2003 the match will come from the one-cent local option sales tax revenue.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$793,790 in 2003 to \$820,585 in 2004, an increase of \$26,795 or an increase of 3%. Total revenues in 2004 were \$1,579,477, which is an increase from \$1,551,931 in 2003 of \$27,546. Total expenditures for 2003 were \$1,435,418 and in 2004 they were \$1,552,682 or an increase of \$117,264, which is an 8% increase in expenditures. The increase in expenditures was mainly due to the purchase of the new equipment for the three cafeterias.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The School District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the School District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The School District's total actual receipts were \$1,449,508 less than the total budgeted receipts, a variance of 3.6%. The most significant change resulted in the School District receiving less in various components of state aid than originally anticipated.

Total expenditures were less than budgeted due primarily to the School District's budget for the General Fund. It is the School District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The School District then manages or controls General Fund spending through its line-item budget. As a result, the School District's certified budget should always exceed the actual expenditures during the year. The School District's total actual expenditures were \$36,597,956 compared to the budget amount of \$40,634,890 or a difference of \$4,036,934, which is a 9.9% variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the School District had invested \$18,692,838, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). Depreciation expense was \$930,846 for Governmental Activities and \$32,705 for Business-type Activities, which is the School Nutrition Fund.

Governmental funds account for \$18,467,406 of the School District's capital assets with the remainder of \$225,432 in the Proprietary, School Nutrition Fund.

The construction in progress of \$392,238 was for the amount of the Mason City High School Science Labs renovation project not completed prior to June 30, 2004. The renovation is financed by the matching funds from the Iowa Demonstration Construction Grant of \$522,000. Also, approximately \$76,000 still remained on a roofing project at the high school.

FIGURE A-6

MASON CITY COMMUNITY SCHOOL DISTRICT CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities June 30,		Business-type Activities June 30,		Total School District June 30,	
	2004	2003	2004	2003	2004	2003
Land	\$ 456,341	\$ 456,341	\$ 0	\$ 0	\$ 456,341	\$ 456,341
Construction in progress	392,238	238,554	0	0	392,238	238,554
Buildings and improvements	16,523,743	15,899,887	0	0	16,523,743	15,899,887
Furniture and equipment	<u>1,095,084</u>	<u>1,297,548</u>	<u>225,432</u>	<u>145,716</u>	<u>1,320,516</u>	<u>1,443,264</u>
TOTALS	<u>\$ 18,467,406</u>	<u>\$ 17,892,330</u>	<u>\$ 225,432</u>	<u>\$ 145,716</u>	<u>\$ 18,692,838</u>	<u>\$ 18,038,046</u>

Long-Term Debt

At June 30, 2004, the School District had \$6,350,000 in general obligation debt outstanding. The School District retired debt in the amount of \$550,000 in school year 2003-2004.

FIGURE A-7

**MASON CITY COMMUNITY SCHOOL DISTRICT
OUTSTANDING LONG-TERM OBLIGATIONS**

	TOTAL SCHOOL DISTRICT	TOTAL SCHOOL DISTRICT	DEBT RETIRED
	2004	2003	2004
General obligation bonds	\$6,350,000	\$6,900,000	\$550,000

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the School District was aware of several existing circumstances that could significantly affect its financial health in the future:

The School District has experienced declining enrollment for the past seven years. For the first time in school year 2003-2004 the School District levied for the budget guarantee.

During school year 2003-2004 the School District experienced a 2.5% reduction in state aid and also in categorical funding. The State later reinstated 0.25% of the reduction.

In school year 2003-2004, the School District received no new money and had to levy \$56,719 to cover the budget guarantee. Labor Contract Settlements will have to be funded by cash reserves and this will have an adverse effect on the School District's General Fund budget and related fund balance.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Assets

At June 30, 2004

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents.....	\$ 17,136,074	\$ 627,855	\$ 17,763,929
Receivables			
Property Taxes, Net of Allowance			
Current year delinquent.....	132,506	—	132,506
Succeeding year	12,427,056	—	12,427,056
Accrued interest.....	182	335	517
Other.....	918,744	—	918,744
Due from other governments.....	355,165	—	355,165
Due from other funds	7,702	—	7,702
Inventories and prepaid expenses	37,741	70,259	108,000
Capital assets, net of accumulated depreciation	18,467,406	225,432	18,692,838
Total Assets	\$ 49,482,576	\$ 923,881	\$ 50,406,457
Liabilities			
Accounts payable	\$ 570,690	\$ 2,513	\$ 573,203
Salaries and benefits payable.....	5,161,558	100,783	5,262,341
Accrued interest payable	22,754	—	22,754
Early retirement payable.....	257,627	—	257,627
Deferred revenue - succeeding year property taxes	12,427,056	—	12,427,056
Provision for self-insurance claims	358,398	—	358,398
Deposit on future bond proceeds.....	179,250	—	179,250
Compensated absences.....	148,894	—	148,894
Long-Term Liabilities			
Portion Due Within One Year			
Bonds payable	575,000	—	575,000
Portion Due After One Year			
Bonds payable	5,775,000	—	5,775,000
Total Liabilities	25,476,227	103,296	25,579,523
Net Assets			
Invested in capital assets, net of related debt .	12,117,406	225,432	12,342,838
Restricted For			
Phase III.....	45,418	—	45,418
Medicaid	25,436	—	25,436
Nonpublic textbooks.....	966	—	966
Title V	33,566	—	33,566
Safe and Drug Free.....	6,752	—	6,752
Management levy.....	175,164	—	175,164
Property, plant and equipment levy	3,016,051	—	3,016,051
Student activities.....	234,809	—	234,809
Capital projects	1,570,391	—	1,570,391
Other purposes	843,181	—	843,181
Other special revenue purposes	177,767	—	177,767
Unrestricted	5,759,442	595,153	6,354,595
Total Net Assets	24,006,349	820,585	24,826,934
Total Liabilities and Net Assets	\$ 49,482,576	\$ 923,881	\$ 50,406,457

See accompanying notes to the financial statements.

Year Ended June 30, 2004

		Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 13,294,055	\$ 672,241	\$ 1,824,796	\$ —	\$ (10,797,018)	\$ —	\$ (10,797,018)
Special instruction	8,927,200	51,530	205,710	—	(8,669,960)	—	(8,669,960)
Vocational instruction	417,480	—	—	—	(417,480)	—	(417,480)
Co-curricular instruction	1,469,544	918,370	—	—	(551,174)	—	(551,174)
Total Instruction.....	<u>24,108,279</u>	<u>1,642,141</u>	<u>2,030,506</u>	<u>—</u>	<u>(20,435,632)</u>	<u>—</u>	<u>(20,435,632)</u>
Support Services							
Student services.....	889,442	—	—	—	(889,442)	—	(889,442)
Instructional staff services	1,032,533	—	—	—	(1,032,533)	—	(1,032,533)
Administration services	2,281,824	30,849	—	—	(2,250,975)	—	(2,250,975)
Operation and maintenance of plant services.....	2,495,853	—	—	—	(2,495,853)	—	(2,495,853)
Transportation services	611,593	66,588	120,789	—	(424,216)	—	(424,216)
Central services	215,682	—	—	—	(215,682)	—	(215,682)
Community services.....	16,764	—	—	—	(16,764)	—	(16,764)
Other support services	358,202	—	—	—	(358,202)	—	(358,202)
Total Support Services	<u>7,901,893</u>	<u>97,437</u>	<u>120,789</u>	<u>—</u>	<u>(7,683,667)</u>	<u>—</u>	<u>(7,683,667)</u>
Noninstructional Programs							
Scholarships	32,175	—	—	—	(32,175)	—	(32,175)
Other.....	2,966	—	—	—	(2,966)	—	(2,966)
Total Noninstructional Programs	<u>35,141</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(35,141)</u>	<u>—</u>	<u>(35,141)</u>
Other Expenditures							
Facilities acquisition	433,546	—	—	256,793	(176,753)	—	(176,753)
Long-term debt interest	302,634	—	—	—	(302,634)	—	(302,634)
AEA flow through	1,357,515	—	1,357,515	—	—	—	—
Depreciation - unallocated.....	64,040	—	—	—	(64,040)	—	(64,040)
Total Other Expenditures.....	<u>2,157,735</u>	<u>—</u>	<u>1,357,515</u>	<u>256,793</u>	<u>(543,427)</u>	<u>—</u>	<u>(543,427)</u>
Total Governmental Activities	34,203,048	1,739,578	3,508,810	256,793	(28,697,867)	—	(28,697,867)
Business-Type Activities							
Noninstructional Programs							
Nutrition services.....	<u>1,552,682</u>	<u>909,501</u>	<u>666,683</u>	<u>—</u>	<u>—</u>	<u>23,502</u>	<u>23,502</u>
Total.....	<u>\$ 35,755,730</u>	<u>\$ 2,649,079</u>	<u>\$ 4,175,493</u>	<u>\$ 256,793</u>	<u>(28,697,867)</u>	<u>23,502</u>	<u>(28,674,365)</u>
General Revenue							
Property Taxes Levied For							
General purposes.....					9,867,493	—	9,867,493
Management					418,497	—	418,497
PPEL.....					1,512,975	—	1,512,975
Capital projects					3,434,509	—	3,434,509
Unrestricted State Grants							
General					16,401,494	—	16,401,494
Other					65,115	—	65,115
Interest and investment earnings					98,118	3,293	101,411
Miscellaneous					49,259	—	49,259
Total General Revenue.....					<u>31,847,460</u>	<u>3,293</u>	<u>31,850,753</u>
Change in Net Assets					3,149,593	26,795	3,176,388
Net Assets - Beginning of Year, as Restated (Note 15)					20,856,756	793,790	21,650,546
Net Assets - End of Year					\$ 24,006,349	\$ 820,585	\$ 24,826,934

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2004

	General	PPEL	Capital Projects	Nonmajor Government Funds	Total
Assets					
Cash and pooled investments	\$ 9,152,339	\$ 2,682,230	\$ 1,622,671	\$ 1,830,471	\$ 15,287,711
Receivables					
Property Taxes, Net					
Current year delinquent	166,693	25,395	—	7,070	199,158
Succeeding year	10,388,597	1,538,460	—	499,999	12,427,056
Accrued interest	—	—	—	182	182
Other	42,349	—	660,829	86,415	789,593
Interfund receivable	9,040	458,213	—	2,378	469,631
Due from other govern- mental units	355,165	—	—	—	355,165
Inventories and prepaid items	37,741	—	—	—	37,741
Total Assets	<u>\$ 20,151,924</u>	<u>\$ 4,704,298</u>	<u>\$ 2,283,500</u>	<u>\$ 2,426,515</u>	<u>\$ 29,566,237</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 317,275	\$ 141,091	\$ 78,842	\$ 33,482	\$ 570,690
Salaries and benefits payable	5,160,506	—	—	1,052	5,161,558
Interfund payable	5,843	—	455,017	1,069	461,929
Early retirement payable	8,527	—	—	249,100	257,627
Deferred Revenue					
Succeeding year property taxes	10,388,597	1,538,460	—	499,999	12,427,056
Other	55,598	8,696	—	2,358	66,652
Deposit on future bond proceeds	—	—	179,250	—	179,250
Total Liabilities	<u>15,936,346</u>	<u>1,688,247</u>	<u>713,109</u>	<u>787,060</u>	<u>19,124,762</u>
Fund Balances					
Reserved For					
Inventories and prepaid items	37,741	—	—	—	37,741
Gifted and talented	63,397	—	—	—	63,397
Phase III	45,418	—	—	—	45,418
Special education	597,545	—	—	—	597,545
Early intervention	17,767	—	—	—	17,767
Medicaid	25,436	—	—	—	25,436
Nonpublic textbooks	966	—	—	—	966
Title I	26,731	—	—	—	26,731
Title V	33,566	—	—	—	33,566
Safe and Drug Free	6,752	—	—	—	6,752
Home Reduction	100,000	—	—	—	100,000
Scholarships	—	—	—	163,946	163,946
Unreserved					
Designated for subsequent year's expenditures over revenue	750,000	—	—	—	750,000
Designated for student activities	167,755	—	—	—	167,755
Undesignated	2,342,504	3,016,051	1,570,391	1,475,509	8,404,455
Total Fund Balances ..	<u>4,215,578</u>	<u>3,016,051</u>	<u>1,570,391</u>	<u>1,639,455</u>	<u>10,441,475</u>
Total Liabilities and Fund Balances	<u>\$ 20,151,924</u>	<u>\$ 4,704,298</u>	<u>\$ 2,283,500</u>	<u>\$ 2,426,515</u>	<u>\$ 29,566,237</u>

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

At June 30, 2004

Total Fund Balances for Governmental Funds (Page 16).... **\$ 10,441,475**

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds..... 18,467,406

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 1,619,116

Long-term liabilities, including bonds payable, accrued interest and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Accrued interest payable	\$ 22,754	
Bonds payable	6,350,000	
Compensated absences.....	<u>148,894</u>	<u>(6,521,648)</u>

Net Assets of Governmental Activities (Page 14) **\$ 24,006,349**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2004

	General	PPEL	Capital Projects	Nonmajor Govern- ment Funds	Total Govern- mental Funds
Revenue					
Local Sources					
Property taxes.....	\$ 9,867,493	\$ 1,512,975	\$ 3,434,509	\$ 418,497	\$ 15,233,474
Tuition.....	587,095	—	—	—	587,095
Other.....	330,003	36,304	6,671	951,808	1,324,786
State sources	18,954,353	1,777	—	516	18,956,646
Federal sources.....	993,847	—	256,793	—	1,250,640
Total Revenue.....	<u>30,732,791</u>	<u>1,551,056</u>	<u>3,697,973</u>	<u>1,370,821</u>	<u>37,352,641</u>
Expenditures					
Current					
Instruction					
Regular instruction	12,623,798	—	—	243,740	12,867,538
Special instruction	8,948,307	—	—	—	8,948,307
Vocational instruction	419,619	—	—	—	419,619
Co-curricular instruction ...	515,696	—	—	871,010	1,386,706
Total Instruction.....	<u>22,507,420</u>	<u>—</u>	<u>—</u>	<u>1,114,750</u>	<u>23,622,170</u>
Support Services					
Student services.....	893,804	—	—	—	893,804
Instructional staff services	1,037,506	—	—	—	1,037,506
Administration services	2,243,707	—	—	—	2,243,707
Operation and mainten- ance of plant services....	2,474,640	—	—	—	2,474,640
Transportation services	544,964	—	—	—	544,964
Central services	211,156	—	—	5,360	216,516
Community service.....	16,764	—	—	—	16,764
Other support services	—	—	—	362,371	362,371
Total Support Services ..	<u>7,422,541</u>	<u>—</u>	<u>—</u>	<u>367,731</u>	<u>7,790,272</u>
Noninstructional Programs					
Scholarships.....	—	—	—	32,175	32,175
Other.....	—	—	—	2,966	2,966
Total Noninstructional Programs.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,141</u>	<u>35,141</u>
Other Expenditures					
Facilities acquisition	—	957,989	427,582	—	1,385,571
Long-Term Debt					
Principal	—	—	—	550,000	550,000
Interest & fiscal charges	—	—	—	304,605	304,605
AEA flowthrough	1,357,515	—	—	—	1,357,515
Total Other Expenditures	<u>1,357,515</u>	<u>957,989</u>	<u>427,582</u>	<u>854,605</u>	<u>3,597,691</u>
Total Expenditures	<u>31,287,476</u>	<u>957,989</u>	<u>427,582</u>	<u>2,372,227</u>	<u>35,045,274</u>
Revenue Over (Under) Expenditures	<u>(554,685)</u>	<u>593,067</u>	<u>3,270,391</u>	<u>(1,001,406)</u>	<u>2,307,367</u>
Other Financing Sources (Uses)					
Interfund loan proceeds.....	—	—	—	1,700,000	1,700,000
Interfund loan disbursements ..	—	—	(1,700,000)	—	(1,700,000)
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>(1,700,000)</u>	<u>1,700,000</u>	<u>—</u>
Net Change in Fund Balance	(554,685)	593,067	1,570,391	698,594	2,307,367
Fund Balance - Beginning of Year	4,770,263	2,422,984	—	940,861	8,134,108
Fund Balance - End of Year ..	<u>\$ 4,215,578</u>	<u>\$ 3,016,051</u>	<u>\$ 1,570,391</u>	<u>\$ 1,639,455</u>	<u>\$ 10,441,475</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities ————

Year Ended June 30, 2004

Change in Fund Balances - Total Governmental Funds (Page 18) \$ 2,307,367

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays.....	\$ 1,081,431	
Depreciation expense.....	<u>(930,846)</u>	150,585

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		288,564
---	--	---------

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		550,000
--	--	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,971
---	--	-------

Compensated absences are not paid from current financial resources and, therefore, were not accrued in the governmental funds. However, compensated absences are a liability on the statement of net assets and have been expensed in the statement of activities.		<u>(148,894)</u>
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Change in Net Assets of Governmental Activities (Page 15) \$ 3,149,593

Balance Sheet - Proprietary Funds

At June 30, 2004

	Business- Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Assets		
Cash and cash equivalents.....	\$ 625,791	\$ 1,848,363
Receivables		
Accounts.....	2,064	129,151
Accrued interest.....	335	—
Inventories and prepaid expenses.....	70,259	—
Furniture and equipment.....	737,512	—
Less accumulated depreciation	(512,080)	—
Total Assets	<u>\$ 923,881</u>	<u>\$ 1,977,514</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,513	\$ 358,398
Salaries and benefits payable.....	100,783	—
Total Liabilities.....	<u>103,296</u>	<u>358,398</u>
Net Assets		
Invested in capital assets, net of related debt	225,432	—
Unrestricted	595,153	1,619,116
Total Net Assets	<u>820,585</u>	<u>1,619,116</u>
Total Liabilities and Net Assets	<u>\$ 923,881</u>	<u>\$ 1,977,514</u>

Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2004

	Business- Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Operating Revenue		
Local Sources		
Charges for service	\$ 902,057	\$ —
Other receipts	7,444	—
Self-insurance contributions	—	3,464,344
Total Operating Revenue	<u>909,501</u>	<u>3,464,344</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	784,207	—
Purchased services	662,870	—
Other	72,900	—
Depreciation	32,705	—
Self-insurance claims and fees	—	3,190,355
Total Operating Expenses	<u>1,552,682</u>	<u>3,190,355</u>
Income (Loss) From Operations	<u>(643,181)</u>	<u>273,989</u>
Nonoperating Revenue		
State sources	23,803	—
Federal sources	642,880	—
Interest on investments	3,293	14,575
Total Nonoperating Revenue	<u>669,976</u>	<u>14,575</u>
Change in Net Assets	<u>26,795</u>	<u>288,564</u>
Net Assets - Beginning of Year	<u>793,790</u>	<u>1,330,552</u>
Net Assets - End of Year	<u>\$ 820,585</u>	<u>\$ 1,619,116</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2004

	Business- Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 907,437	\$ —
Cash received from assessments made to other funds.....	—	3,335,193
Cash payments to employees for services	(777,823)	—
Cash payments for insurance claims	—	(3,221,049)
Cash payments to suppliers for goods and services	(573,286)	—
Net Cash Provided By (Used in) Operating Activities	<u>(443,672)</u>	<u>114,144</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	23,803	—
Federal grants received.....	516,865	—
Net Cash Provided by Noncapital Financing Activities	<u>540,668</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets.....	<u>(112,421)</u>	<u>—</u>
Cash Flows From Investment Activities		
Interest on investments	<u>3,238</u>	<u>14,575</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(12,187)	128,719
Cash and Cash Equivalents at Beginning of Year	<u>637,978</u>	<u>1,719,644</u>
Cash and Cash Equivalents at End of Year	<u>\$ 625,791</u>	<u>\$ 1,848,363</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided By (Used in) Operating Activities		
Income (loss) from operations.....	\$ (643,181)	\$ 273,989
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used in) Operating Activities		
Commodities used	152,916	—
Depreciation.....	32,705	—
Changes in Assets and Liabilities		
Increase in accounts receivable.....	(2,064)	(129,151)
Decrease in inventories and prepaid items	9,050	—
Increase (decrease) in accounts payable and provision for self-insurance claims	518	(30,694)
Increase in salaries and benefits payable	<u>6,384</u>	<u>—</u>
Net Cash Provided By (Used in) Operating Activities.....	<u>\$ (443,672)</u>	<u>\$ 114,144</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2004, the District received \$126,015 of federal commodities.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Fund

At June 30, 2004

	Agency
Assets	
Cash and pooled investments	\$ 29,837
Due from other governments	46,712
Due from other funds.....	269
Other	<u>41</u>
Total Assets	<u>\$ 76,859</u>
 Liabilities	
Accounts payable	\$ 35,381
Due to others.....	33,507
Due to other funds.....	<u>7,971</u>
Total Liabilities	<u>\$ 76,859</u>

(1) Summary of Significant Accounting Policies

The Mason City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Mason City Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Mason City Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

District-Wide Financial Statements

The statement of net assets and the statement of activities report information on all the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenue, are reported separately for business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenue are reported instead as general revenue.

(1) Summary of Significant Accounting Policies

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District had the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenue and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The PPEL Fund (Physical Plant and Equipment Levy) is used to account for all revenue derived from a specific levy which is required by law to be accounted for in a separate fund.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the Enterprise - School Nutrition Fund and the Internal Service Fund. The Internal Service Fund is used to account for the self-funded health insurance plan operated by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the Agency Fund used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

Property tax, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

(1) Summary of Significant Accounting Policies

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenue.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents

The cash balances of most District funds are pooled and invested. The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of one year or less from the date of acquisition.

Investments are stated at fair value which approximates cost.

Property Taxes Receivable

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

(1) Summary of Significant Accounting Policies

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable have been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2004, government commodities valued at \$42,249 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land.....	\$2,000
Buildings	2,000
Improvements other than buildings.....	2,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment.....	2,000
Vehicles	2,000

(1) Summary of Significant Accounting Policies

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	50 Years
Improvements other than buildings.....	25 Years
Technology equipment.....	5 Years
Other furniture and equipment.....	10 Years
Vehicles	8 Years

Salaries and Benefits Payable

Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of asset that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property taxes receivable and other receivables not collected within 60 days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property taxes receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets

In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The District did not exceed the amounts budgeted during the year ended June 30, 2004.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvements certificates of a drainage district.

The District's investments at June 30, 2004 were as follows:

Type	Amortized Cost
Iowa Schools Joint Investment Trust.....	<u>\$ 1,106,769</u>

The District's investment in the Iowa Schools Joint Investment Trust is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2004.

Notes to the Financial Statements

(3) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
Agency	General	\$ 269
Student Activity	General	2,378
PPEL	General	3,196
PPEL	Capital Projects	455,017
General	Agency	7,971
General	Student Activity	1,069
		<u>\$ 469,900</u>

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 456,341	\$ —	\$ —	\$ 456,341
Construction in progress	<u>238,554</u>	<u>812,597</u>	<u>658,913</u>	<u>392,238</u>
Total Capital Assets Not Being Depreciated.....	<u>694,895</u>	<u>812,597</u>	<u>658,913</u>	<u>848,579</u>
Capital Assets Being Depreciated				
Buildings and improvements	28,934,540	699,646	—	29,634,186
Furniture and equipment	<u>3,356,295</u>	<u>228,101</u>	<u>160,322</u>	<u>3,424,074</u>
Total Capital Assets Being Depreciated.....	<u>32,290,835</u>	<u>927,747</u>	<u>160,322</u>	<u>33,058,260</u>
Less Accumulated Depreciation For				
Buildings and improvements, as restated (Note 15).....	12,490,431	620,012	—	13,110,443
Furniture and equipment, as restated (Note 15).....	<u>2,178,478</u>	<u>310,834</u>	<u>160,322</u>	<u>2,328,990</u>
Total Accumulated Depreciation	<u>14,668,909</u>	<u>930,846</u>	<u>160,322</u>	<u>15,439,433</u>
Net Total Capital Assets Being Depreciated.....	<u>17,621,926</u>	<u>(3,099)</u>	<u>—</u>	<u>17,618,827</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 18,316,821</u>	<u>\$ 809,498</u>	<u>\$ 658,913</u>	<u>\$ 18,467,406</u>

Notes to the Financial Statements

(4) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Furniture and equipment.....	\$ 625,091	\$ 112,421	\$ —	\$ 737,512
Less accumulated depreciation	<u>479,375</u>	<u>32,705</u>	<u>—</u>	<u>512,080</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 145,716</u>	<u>\$ 79,716</u>	<u>\$ —</u>	<u>\$ 225,432</u>

Depreciation expense was charged as follows:

Governmental Activities

Instruction	
Regular	\$ 616,950
Special	16,569
Other	85,409
Support Services	
Administration	49,637
Operation and maintenance of plant.....	29,803
Transportation	<u>68,438</u>
	866,806
Unallocated depreciation	<u>64,040</u>
Total Governmental Activities Depreciation Expense	<u>\$ 930,846</u>
 Business-Type Activities	
School Nutrition	<u>\$ 32,705</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	General Obligation Bonds
Balance - Beginning of Year	\$ 6,900,000
Amount retired	<u>550,000</u>
Balance - End of Year	<u>\$ 6,350,000</u>
 Due Within One Year	<u>\$ 575,000</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

Bonds Payable

At June 30, 2004, the District's bond indebtedness was as follows:

Year Ending June 30,	Bonds Issued February 1, 1998			
	Interest Rates	Principal	Interest	Total
2005	4.30%	\$ 575,000	\$ 273,050	\$ 848,050
2006	4.30	600,000	248,325	848,325
2007	4.30	625,000	222,525	847,525
2008	4.30	675,000	195,650	870,650
2009	4.30	700,000	166,625	866,625
2010-2013	4.30	3,175,000	350,450	3,525,450
Total.....		<u>\$ 6,350,000</u>	<u>\$ 1,456,625</u>	<u>\$ 7,806,625</u>

Interfund Loans

The District made an interfund loan of \$1,700,000 from the Capital Projects Fund to the Debt Service Fund to pay principal and interest on the outstanding general obligation bonds listed above. The loan is to bear interest at the rate of 1% per annum and will be repaid from school infrastructure local option sales and services tax collections. The loan has no fixed repayment date but is not expected to be paid back until after June 30, 2005.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.7% of their annual salary and the District is required to contribute 5.75% of annual payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$1,105,004, \$1,077,716 and \$1,074,448, respectively, equal to the required contributions for each year.

(7) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2004 was approximately \$8,500,000.

Notes to the Financial Statements

(8) Risk Management

The Mason City Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency Support

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$1,357,515 for the year ended June 30, 2004, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost, towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to \$35,000 per covered individual. Any amount in excess of \$35,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$3,200,000 for the year ended June 30, 2004.

The District has included \$358,398 in its June 30, 2004 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2004:

Estimated cost incurred but not claimed - June 30, 2003.....	\$ 389,092
Claims incurred and claimed and estimated costs incurred but Claimed for the year ended June 30, 2004.....	3,190,355
Claims paid during the year ended June 30, 2004.....	<u>(3,221,049)</u>
Estimated Costs Incurred But Not Claimed - June 30, 2004.....	<u>\$ 358,398</u>

Notes to the Financial Statements

(11) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service at June 30, 2004 was as follows:

Administrators	\$ 425
Teachers/Nurse	325
Custodian/Service	225
Secretary	200
Para-Professional/Cafeteria.....	100

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2004 totaled \$257,626. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the General and Special Revenue Funds.

(12) Construction Commitments

The District has entered into various contracts, with approximately \$424,000 and \$76,000 remaining at June 30, 2004, for construction on a high school science lab project and roofing projects, respectively.

(13) Deficit Fund Balance

The Special Revenue Fund - Student Accounts had the following deficit balances at June 30, 2004 which resulted because transfers had not been made. The deficits are expected to be eliminated with monies transferred in from the General Fund.

Middle School Athletics	\$279
Hoover Elementary	195

(14) Subsequent Events

In July, 2004, the District issued \$17,925,000 of school infrastructure local option sales and services tax revenue bonds for the construction of a new middle school. No contracts have been approved for the construction as of the date of this report.

In August, 2004, the District adopted a resolution to sell property which cost \$47,619 to the City of Mason City for \$1.

(15) Prior Period Adjustment

Depreciation expense and accumulated depreciation were incorrectly calculated on the June 30, 2003 financial statements. The effect of the error on the governmental activities in the District-wide financial statements was as follows:

	June 30, 2003, as Previously Reported	Error Correction	June 30, 2003, as Restated
Net assets	\$ 20,432,265	\$ 424,491	\$ 20,856,756
Accumulated Depreciation			
Buildings and improvements	13,034,653	(544,222)	12,490,431
Furniture and equipment	2,058,747	119,731	2,178,478

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2004

	<u>Actual</u>				
	<u>Governmental</u>	<u>Proprietary</u>		<u>Original</u>	<u>Over</u>
	<u>Fund Types</u>	<u>Fund Type</u>		<u>and Final</u>	<u>(Under)</u>
	<u>Actual</u>	<u>Actual</u>	<u>Total</u>	<u>Budget</u>	<u>Budget</u>
Revenue					
Local sources	\$ 17,145,355	\$ 912,794	\$ 18,058,149	\$ 18,522,902	\$ (464,753)
State sources	18,956,646	23,803	18,980,449	20,036,724	(1,056,275)
Federal sources.....	1,250,640	642,880	1,893,520	1,822,000	71,520
Total Revenue	<u>37,352,641</u>	<u>1,579,477</u>	<u>38,932,118</u>	<u>40,381,626</u>	<u>(1,449,508)</u>
Expenditures					
Instruction.....	23,622,170	—	23,622,170	23,831,138	208,968
Support services.....	7,790,272	—	7,790,272	8,964,000	1,173,728
Noninstructional programs	35,141	1,552,682	1,587,823	2,016,000	428,177
Other expenditures.....	3,597,691	—	3,597,691	5,823,752	2,226,061
Total Expenditures.....	<u>35,045,274</u>	<u>1,552,682</u>	<u>36,597,956</u>	<u>40,634,890</u>	<u>4,036,934</u>
Revenue Over (Under)					
Expenditures	2,307,367	26,795	2,334,162	(253,264)	<u>\$ 2,587,426</u>
Balance - Beginning of Year	<u>8,134,108</u>	<u>793,790</u>	<u>8,927,898</u>	<u>7,192,146</u>	
Balance - End of Year.....	<u>\$ 10,441,475</u>	<u>\$ 820,585</u>	<u>\$ 11,262,060</u>	<u>\$ 6,938,882</u>	

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar and statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Encumbrances pertain to commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not expenditures or liabilities. Encumbrances represent the estimated amount of expenditures which may result if the unperformed contracts in process are completed. The District is not required to use encumbrance accounting, and accordingly, commitments related to unperformed contracts for goods or services have not been recorded by the District.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information



Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2004

		Special Revenue Funds			
	Debt Service	Manage- ment Account	Student Account	Expend- able Trust	Total
Assets					
Cash and pooled investments	\$ 1,051,715	\$ 419,552	\$ 181,524	\$ 177,680	\$ 1,830,471
Receivables					
Property Taxes, Net					
Current year delinquent	—	7,070	—	—	7,070
Succeeding year	—	499,999	—	—	499,999
Accrued interest	—	—	95	87	182
Other	—	—	86,415	—	86,415
Due from other funds	—	—	2,378	—	2,378
Total Assets	<u>\$ 1,051,715</u>	<u>\$ 926,621</u>	<u>\$ 270,412</u>	<u>\$ 177,767</u>	<u>\$ 2,426,515</u>
Liabilities and Equities					
Liabilities					
Accounts payable	\$ —	\$ —	\$ 33,482	\$ —	\$ 33,482
Salaries and benefits payable	—	—	1,052	—	1,052
Interfund payable	—	—	1,069	—	1,069
Early retirement payable	—	249,100	—	—	249,100
Deferred Revenue					
Succeeding year property taxes	—	499,999	—	—	499,999
Other	—	2,358	—	—	2,358
Total Liabilities	<u>—</u>	<u>751,457</u>	<u>35,603</u>	<u>—</u>	<u>787,060</u>
Equities					
Reserved fund balance -					
scholarships	—	—	—	163,946	163,946
Unreserved and undesignated					
fund balance	1,051,715	175,164	234,809	13,821	1,475,509
Total Equity	<u>1,051,715</u>	<u>175,164</u>	<u>234,809</u>	<u>177,767</u>	<u>1,639,455</u>
Total Liabilities and Equities	<u>\$ 1,051,715</u>	<u>\$ 926,621</u>	<u>\$ 270,412</u>	<u>\$ 177,767</u>	<u>\$ 2,426,515</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds

Year Ended June 30, 2004

	Debt Service	Special Revenue Funds			Total
		Manage- ment Account	Student Account	Expend- able Trust	
Revenue					
Local Sources					
Local Taxes					
Property taxes	\$ —	\$ 417,980	\$ —	\$ —	\$ 417,980
Mobile home taxes	—	517	—	—	517
	—	418,497	—	—	418,497
Other Local Sources					
Interest on investments.....	8,895	2,766	1,324	1,040	14,025
Student activities	—	—	247,763	—	247,763
Other revenue	—	—	670,607	19,413	690,020
Total Other Local Sources	8,895	2,766	919,694	20,453	951,808
Total Local Sources	8,895	421,263	919,694	20,453	1,370,305
State Sources					
Revenue in lieu of taxes - military credit	—	516	—	—	516
Total Revenue	8,895	421,779	919,694	20,453	1,370,821
Expenditures					
Instruction					
Regular instruction	—	243,740	—	—	243,740
Co-curricular instruction	—	—	871,010	—	871,010
Total Instruction	—	243,740	871,010	—	1,114,750
Support Services					
Central services	—	5,360	—	—	5,360
Other support services.....	—	362,371	—	—	362,371
Total Support Services.....	—	367,731	—	—	367,731
Noninstructional Programs					
Scholarships	—	—	—	32,175	32,175
Other.....	—	—	—	2,966	2,966
Total Noninstructional Programs	—	—	—	35,141	35,141
Other Expenditures					
Long-Term Debt					
Principal	550,000	—	—	—	550,000
Interest	304,605	—	—	—	304,605
Total Other Expenditures .	854,605	—	—	—	854,605
Total Expenditures.....	854,605	611,471	871,010	35,141	2,372,227
Revenue Over (Under)					
Expenditures	(845,710)	(189,692)	48,684	(14,688)	(1,001,406)
Other Financing Sources					
Proceeds from interfund borrowing	1,700,000	—	—	—	1,700,000
Net Change in Fund Balances	854,290	(189,692)	48,684	(14,688)	698,594
Fund Balance - Beginning of Year	197,425	364,856	186,125	192,455	940,861
Fund Balance - End of Year	\$ 1,051,715	\$ 175,164	\$ 234,809	\$ 177,767	\$ 1,639,455

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2004

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Administration.....	\$ 54,400	\$ 27,517	\$ 55,401	\$ 26,516
Physical Education	1,119	1,167	1,463	823
TAG.....	100	—	—	100
High School Speech and Drama.....	11,731	1,649	1,280	12,100
High School Vocal Music.....	14,630	88,120	83,346	19,404
High School Instrumental Music	17,959	61,416	67,876	11,499
High School Athletics.....	(40,214)	378,757	303,062	35,481
Dance Team.....	4,679	27,813	20,253	12,239
Cheerleading	9,158	49,688	46,384	12,462
Concession Stand	21,464	60,332	78,060	3,736
Tournaments	4,619	33,794	38,413	—
National Art Honor Society	1,390	—	146	1,244
Foreign Language	1,112	—	759	353
AFS International Club	2,199	2,384	3,186	1,397
Model U.N.	(472)	1,891	1,419	—
Literary Club	167	116	—	283
Math Club.....	1,906	1,651	1,656	1,901
Science Club	558	1,253	257	1,554
Home Economics	243	—	—	243
Adult Living.....	449	—	—	449
Industrial Tech - Special Project	363	200	—	563
Prom.....	475	4,036	3,225	1,286
Student Council	2,355	9,558	10,648	1,265
Mohawk Press.....	(824)	1,224	400	—
Yearbook.....	(4,945)	48,793	41,902	1,946
Ambassadors	832	367	322	877
National Honor Society.....	242	3,133	3,357	18
Alternative School.....	978	3,784	3,573	1,189
Middle School Athletics	(3,891)	18,719	15,107	(279)
John Adams Middle School	30,403	12,539	20,357	22,585
Roosevelt Middle School	48,900	38,863	36,306	51,457
Harding Elementary.....	521	4,403	1,468	3,456
Hoover Elementary.....	1,669	8,002	9,866	(195)
Jefferson Elementary.....	(680)	17,378	14,070	2,628
Madison Elementary.....	—	7,805	6,495	1,310
Roosevelt Elementary	1,027	1,280	934	1,373
Student Parking.....	903	875	—	1,778
MCHS JEL	600	1,200	49	1,751
MCHS Sod House	—	100	83	17
	<u>\$ 186,125</u>	<u>\$ 919,807</u>	<u>\$ 871,123</u>	<u>\$ 234,809</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund —

Year Ended June 30, 2004

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and pooled investments	\$ 31,542	\$ 278,429	\$ 280,134	\$ 29,837
Due from other governments	15,367	46,712	15,367	46,712
Due from other funds.....	11,836	269	11,836	269
Other	<u>12</u>	<u>41</u>	<u>12</u>	<u>41</u>
Total Assets	<u>\$ 58,757</u>	<u>\$ 325,451</u>	<u>\$ 307,349</u>	<u>\$ 76,859</u>
Liabilities				
Accounts payable	\$ 26,312	\$ 35,381	\$ 26,312	\$ 35,381
Due to others.....	31,554	282,099	280,146	33,507
Due to other funds.....	<u>891</u>	<u>7,971</u>	<u>891</u>	<u>7,971</u>
Total Liabilities	<u>\$ 58,757</u>	<u>\$ 325,451</u>	<u>\$ 307,349</u>	<u>\$ 76,859</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Years Ended June 30, 2004, 2003, 2002 and 2001

	2004	2003	2002	2001
Revenue				
Local Sources				
Property taxes.....	\$ 15,233,474	\$ 12,978,548	\$ 12,221,369	\$ 12,106,632
Tuition.....	587,095	568,980	553,071	621,824
Other.....	1,324,786	1,541,293	1,581,319	1,804,043
State sources	18,956,646	18,954,174	17,815,730	18,622,855
Federal sources.....	<u>1,250,640</u>	<u>895,238</u>	<u>703,233</u>	<u>807,506</u>
Total	<u>\$ 37,352,641</u>	<u>\$ 34,938,233</u>	<u>\$ 32,874,722</u>	<u>\$ 33,962,860</u>
Expenditures				
Instruction				
Regular instruction	\$ 12,867,538	\$ 12,580,788	\$ 12,946,298	\$ 12,135,872
Special instruction.....	8,948,307	8,090,177	5,802,878	5,235,887
Vocational instruction.....	419,619	397,634	409,424	445,682
Co-curricular instruction	1,386,706	1,495,486	1,463,748	1,286,350
Other instruction.....	—	—	1,249,819	1,326,952
Support Services				
Student services	893,804	897,688	944,005	980,863
Instructional staff services.....	1,037,506	1,040,758	1,025,978	1,265,194
Administration services	2,243,707	2,191,715	2,208,921	2,150,121
Operation and maintenance of plant services	2,474,640	2,431,820	2,295,120	2,550,662
Transportation services.....	544,964	635,345	578,785	639,485
Central support services	216,516	216,645	243,636	164,448
Community services.....	16,764	25,582	32,074	38,009
Other support services.....	362,371	270,042	194,706	179,614
Noninstructional programs.....	35,141	31,300	36,946	34,049
Other Expenditures				
Facilities acquisition	1,385,571	974,171	808,401	830,566
Long-Term Debt				
Principal	550,000	525,000	500,000	1,050,000
Interest and other charges.....	304,605	319,012	340,263	383,813
AEA flowthrough.....	<u>1,357,515</u>	<u>1,425,447</u>	<u>1,373,373</u>	<u>1,432,845</u>
Total	<u>\$ 35,045,274</u>	<u>\$ 33,548,610</u>	<u>\$ 32,454,375</u>	<u>\$ 32,130,412</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Food Donation (noncash).....	10.550	FY 04	\$ 118,844
Child Nutrition Cluster			
School Breakfast Program.....	10.553	FY 04	69,765
National School Lunch Program	10.555	FY 04	447,009
Total Cash Expenditures			<u>516,774</u>
Total U.S. Department of Agriculture			<u>635,618</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I - Grants to Local Education Agencies.....	84.010	FY 04	<u>497,738</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 04	<u>16,968</u>
Star Schools	84.203	FY 04	<u>6,000</u>
Fund for the Improvement of Education	84.215	FY 04	<u>256,793</u>
State Grants for Innovative Programs	84.298	FY 04	<u>34,378</u>
Teacher Quality Enhancement Grants	84.336	FY 04	<u>198,585</u>
Grants for State Assessments and Related Activities.....	84.369	FY 04	<u>26,250</u>
Total Pass-Through From Iowa Department of Education			<u>1,036,712</u>
Pass-Through From Area Education Agency 267			
Special Education Grants to States.....	84.027	FY 04	<u>188,742</u>
Total U.S. Department of Education			<u>1,225,454</u>
Total.....			<u>\$ 1,861,072</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Mason City Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

The Mason City Community School District provided no federal awards to subrecipients.

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the financial statements of the Mason City Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mason City Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The following comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Mason City Community School District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. All prior year statutory comments have been resolved, except for the financial condition comment.

Official Depositories - Official depositories have been approved by the Board. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

Certified Budget - Expenditures for the year ended June 30, 2004 did not exceed the amounts budgeted.

Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense - No disbursements of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

Business Transactions - No business transactions between the District and District officials or employees were noted.

Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

Board Minutes - No transactions were found that we believe should have been included in the Board minutes but were not.

Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on Line 7 of the Certified Enrollment Certification Form for September, 2003 was overstated. The District's certified enrollment count included 12 students on the alternative school waiting list in Line 1. These students were not actually enrolled in the District, but were merely waiting to be enrolled. This resulted in overstating the total actual enrollment at Line 7 by 12 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.

Certified Annual Report - The certified annual report was filed with the Department of Education timely, however, we noted two significant deficiencies in the amounts reported. The District accrued only one month of local option sales tax although two months of revenue had been earned and subject to accrual at June 30, 2004. The District also accrued a payable that had already been paid.

Recommendation - The District should accrue all revenue not received by June 30 as required by generally accepted accounting principles and accounts payable should be accrued from invoices only.

Response - This was the first year the District received local option sales tax. We will accrue the proper amount in the future. We will also accrue payables from proper invoices only.

Conclusion - Response accepted.

Financial Condition - The funds listed below had the following deficit fund balances at June 30, 2004:

Special Revenue Fund	
Middle School Athletics	\$ 279
Hoover Elementary.....	195

Recommendation - The District should eliminate these deficits in order to return the funds to a sound financial position.

Response - This fund deficits were subsequently eliminated by a transfer from the General Fund.

Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mason City Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the officials, employees and citizens of the Mason City Community School District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 21, 2004

Independent Auditor's Report on Compliance With Requirement Applicable to Each Major Program and on Internal Control Over Compliance

Board of Education
Mason City Community School District
Mason City, Iowa

Compliance

We have audited the compliance of the Mason City Community School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Mason City Community School District's major federal programs are identified in the summary of independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Mason City Community School District's management. Our responsibility is to express an opinion on the Mason City Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mason City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mason City Community School District's compliance with those requirements.

In our opinion, the Mason City Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Mason City Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Mason City Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the officials, employees and citizens of the Mason City Community School District and federal awarding agencies and pass-through entities and is not intended to be and should not be used for anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 21, 2004

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? ☐ yes ☒ no

Reportable condition identified not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness identified? ☐ yes ☒ no

Reportable condition identified not considered to be material weakness? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

CFDA Numbers

84.010

Name of Federal Program or Cluster

Title I - Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

Part II: Findings Related to the Financial Statements

Instances of Noncompliance - There were no prior year or current year reported instances of noncompliance.

Reportable Conditions - There were no prior year or current year matters.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no prior year or current year reported instances of noncompliance.

Reportable Conditions

There were no prior year or current year matters reported.